

Transpower Input Methodologies Amendment Determination 2015 (No.2)

[2015] NZCC [27]

Amendments made under s 52X of the Commerce Act 1986 to input methodologies applicable to Transpower contained in Decision [2012] NZCC 17.

The Commission:

S Begg

Dr S Gale

E Welson

G Crombie

Date of determination: 21 October 2015

Transpower Input Methodologies Amendment Determination 2015 (No.2)

Pursuant to Part 4 of the Commerce Act 1986 (the Act) the Commerce Commission makes the following determination:

1. TITLE

This determination is the Transpower Input Methodologies Amendment Determination 2015 (No.2).

2. DETERMINATION AMENDED

This determination amends the *Transpower Input Methodologies Determination* [2012] NZCC 17 (the Transpower IM Determination).

3. COMMENCEMENT

3.1 This determination comes into force on the date on which notice of this determination is given in the *New Zealand Gazette*.

4. AMENDMENTS TO TRANSPOWER IM DETERMINATION

4.1 Clause 2.4.10(2)(a) of the Transpower IM Determination is amended by replacing it with:

“(a) ‘V’ is the yield shown by using the New Zealand Dollar Interest Rate Swap Curve as reported by Bloomberg plus the mean of the credit spreads of New Zealand corporate ‘A-band’ rated bonds as reported by Bloomberg, for a bond with a tenor equal to, or closest to, the original tenor of the **qualifying debt**;”

4.2 Clause 2.4.10(2)(c) of the Transpower IM Determination is amended by replacing it with:

“(c) ‘X’ is the yield shown by using the New Zealand Dollar Interest Rate Swap Curve as reported by Bloomberg plus the mean of the credit spreads of New Zealand corporate ‘A-band’ rated bonds as reported by Bloomberg, for a bond with a tenor of 5 years;”



Sue Begg, *Deputy Chair*

Dated at Wellington this 21st October 2015.

COMMERCE COMMISSION

EXPLANATORY NOTE

The *Transpower Input Methodologies Determination* [2012] NZCC 17 (Transpower IM Determination) provides an optional adjustment for Transpower New Zealand Limited (Transpower) to reflect the additional costs of holding a longer-term debt portfolio (ie, beyond five years). This adjustment is known as the Term Credit Spread Differential (TCSD). The TCSD adjustment typically provides a small increase in Transpower's Maximum Allowable Revenue (MAR).

In order to calculate the TCSD, Transpower is first required to calculate the Term Credit Spread Difference using the formula specified in clause 2.4.10(1) of the Transpower IM Determination. However, it is presently impossible for Transpower to calculate the Term Credit Spread Difference because certain values, 'V' and 'X', which are required to be used in the prescribed calculation cannot be determined. This is because clauses 2.4.10(2)(a) and 2.4.10(2)(c) of the Transpower IM Determination provide that the values 'V' and 'X' must be calculated using a Bloomberg New Zealand 'A' fair value curve which is no longer produced by Bloomberg.

This amendment fills the gap in the Transpower IM Determination by substituting an equivalent reference set for the defunct Bloomberg reference set. The amendment enables Transpower to apply the IM requirements relating to the calculation of the Term Credit Spread Difference as was intended in clause 2.4.10.(1)(a) of the Transpower IM determination.

Section 52V of the Commerce Act 1986 was not applied in making the amendment as it is not a material change to the existing input methodology.

